Kraftco Corporation

1973 Annual Report

WORD ON ONE-PAN MEALS
SPECIAL! CHEFS SURPRISE XX¢
Chefs Surprise
Kraft presents the last word on one-pan meals
Save 7c on a Chefs Surprise supper
store coupon
7
KRAFT
Chefs Surprise
SLOPPY JOE SUPPER
Chefs Surprise
SLOPPY JOE SUPPER
ADD 1 LB GROUND BEEF

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CORPORATION FILE

Financial Highlights	**1973**	1972
Sales	**$3,601,535,000**	$3,196,789,000
Earnings	**$ 103,428,000**	$ 100,635,000*
Per Share	**$3.70**	$3.57*
Per Dollar of Sales	**2.87%**	3.15%
Federal and Foreign Taxes on Income	**$ 85,796,000**	$ 86,894,000**
Per Share	**$3.07**	$3.08**
Dividends to Stockholders	**$ 49,331,000**	$ 49,741,000
Per Share	**$1.768**	$1.768
Capital Expenditures	**$ 70,374,000**	$ 87,139,000
Depreciation	**$ 46,690,000**	$ 43,727,000
Working Capital	**$ 442,717,000**	$ 425,899,000
Stockholders' Equity	**$ 807,664,000**	$ 768,744,000
Number of Stockholders	**67,556**	69,999

*Before extraordinary charge of $12,300,000 (44¢ per share) net of tax benefits.
**Before tax benefit on extraordinary charge.

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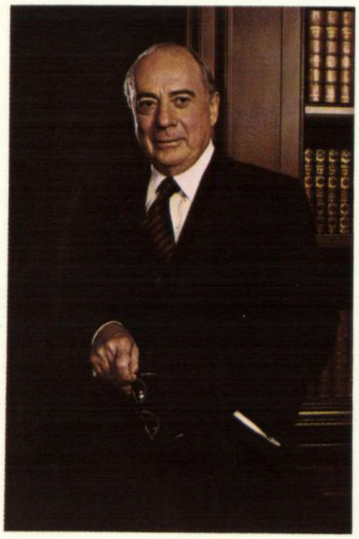
Annual Meeting

The Annual Meeting of Stockholders of Kraftco Corporation will be held Thursday, April 18, 1974, at 2 p.m. in The Bellevue Stratford Hotel, Broad at Walnut Street, Philadelphia, Pennsylvania.

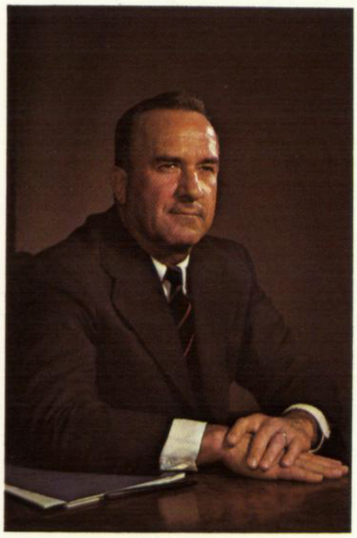
On the Covers

Providing food products, from farm field to dinner table, requires a complex system of many people fulfilling many roles. Kraft Foods' *Chefs Surprise* is a recent addition to that system. A serving suggestion using other traditional Kraftco products is featured on the inside back cover.

To Our Stockholders:



William O. Beers
Chairman of the Board



Arthur W. Woelfle
President

In 1973, Kraftco's worldwide sales were $3,601,535,000, highest in the Company's history. Net income advanced to $103,428,000, also a record. And in February 1974, the Board of Directors authorized payment of the 201st consecutive quarterly dividend, extending a record which has been unbroken since Kraftco was founded in 1923.

Consumer demand for Kraftco products has been growing steadily in recent years and, in 1973, the increase was greater than usual. We are witnessing a continuing trend to cheese as a fine source of protein. This favorable trend can be attributed, in part, to consumers discovering the many varieties and uses of cheese and cheese products.

It is especially gratifying to report these results because they were achieved in spite of unusual conditions. During much of the year, Kraftco experienced sharply rising costs and disturbing dislocations of many kinds throughout its worldwide operations. Despite the strengthened demand for our products, we were not able to realize our full sales potential because access to raw materials was restricted by market conditions and government controls. We look forward to the end of price controls in the near future.

With last year's Annual Report we presented a review of Kraftco's first half-century of progress. This year we are concentrating on current conditions. In the section, "Focus on Issues", are brief discussions of some pressing challenges to the management of a progressive business organization. Many of these questions have special significance for Kraftco.

There is a growing realization among thoughtful Americans that our nation suffers from being over-regulated. Since 1964, the government sector of the United States has increased its spending from about 27 percent of the total national income to more than 32 percent. The primary way taxpayers—individuals and corporations alike—can cover the rising tide of government spending is by relinquishing gains in other areas.

This national awareness is essential, we believe. It indicates that Americans want to be responsible for their own lives and to act in their own behalf. In most affairs, your management advocates the return to less government and less governing as an important contribution to the well-being of society.

Nevertheless, events of the past year—particularly the petroleum embargo and international currency fluctuations—strongly underscore America's central role in the world scene. Amid talk of shortages, it is heartening to note that no nation is better endowed with natural resources. The United States is the world's largest producer of many basic commodities, including corn, soybeans, cotton and such vital energy sources as coal and natural gas. This made it possible for our country to increase its agricultural exports to $17.7 billion in 1973 from $9.4 billion in 1972 and bring about a total trade surplus after two years of serious deficit. However, the rate at which commodities such as wheat and soybeans were exported contributed to dislocations here at home.

Developing our agricultural and food industries, with full access to raw materials and an unrestricted market, is a major goal for the nation and for Kraftco. Also, high priority must be given to the challenge of maintaining and expanding public confidence in free enterprise. This can be done chiefly by setting a worthy example of what it is and what it can become. We urge you to join us in speaking out on a wide range of issues which affect the Company and you as an individual shareholder.

In 1973, Kraftco continued its long-range programs to improve productivity and increase profitability. A new department with responsibility for Corporate Development, Marketing and Research was established to draw the related aspects of marketing, sales and product development closer together. Kra-Pak's chemical and packaging operations also were realigned.

People continue to receive top priority at Kraftco. Our Department of Urban Affairs was established as a formal recognition of our growing involvement. In addition, a Department of Community and Civic Affairs was set up to assume responsibility for certain aspects of Kraftco's social commitment. Also, a number of significant management changes occurred in 1973.

As you know, your Vice Chairman was elected President and Chief Operating Officer immediately following the 1973 Annual Meeting. At the same time, Chester R. Green was elected Senior Vice President in charge of the Corporate Development, Marketing and Research Department. More recent appointments to the executive staff include John X. Thomas to Vice President for Community and Civic Affairs and Margaret P. MacKimm to Director of Public Relations.

These changes are part of Kraftco's progress from a holding company to an operating company. Today, with the corporate staff and the electronic data processing center located in Glenview, Illinois, corporate management is in closer touch with day-to-day operations throughout the world than ever before. A unified organization with greater flexibility and responsiveness to changing conditions is management's primary goal.

The 1973 results reflect the contributions of Kraftco's 48,900 employees whose dedication, creativeness and loyalty are the Company's greatest assets, and we thank them all. Management is also grateful to the members of the Board of Directors for their unfailing support, and to you, our stockholders, for your expressions of confidence.

We share your belief in the future of this Company. We live in dramatic and exciting times, and it is our promise that Kraftco will continue its contribution toward a better life and a better world.

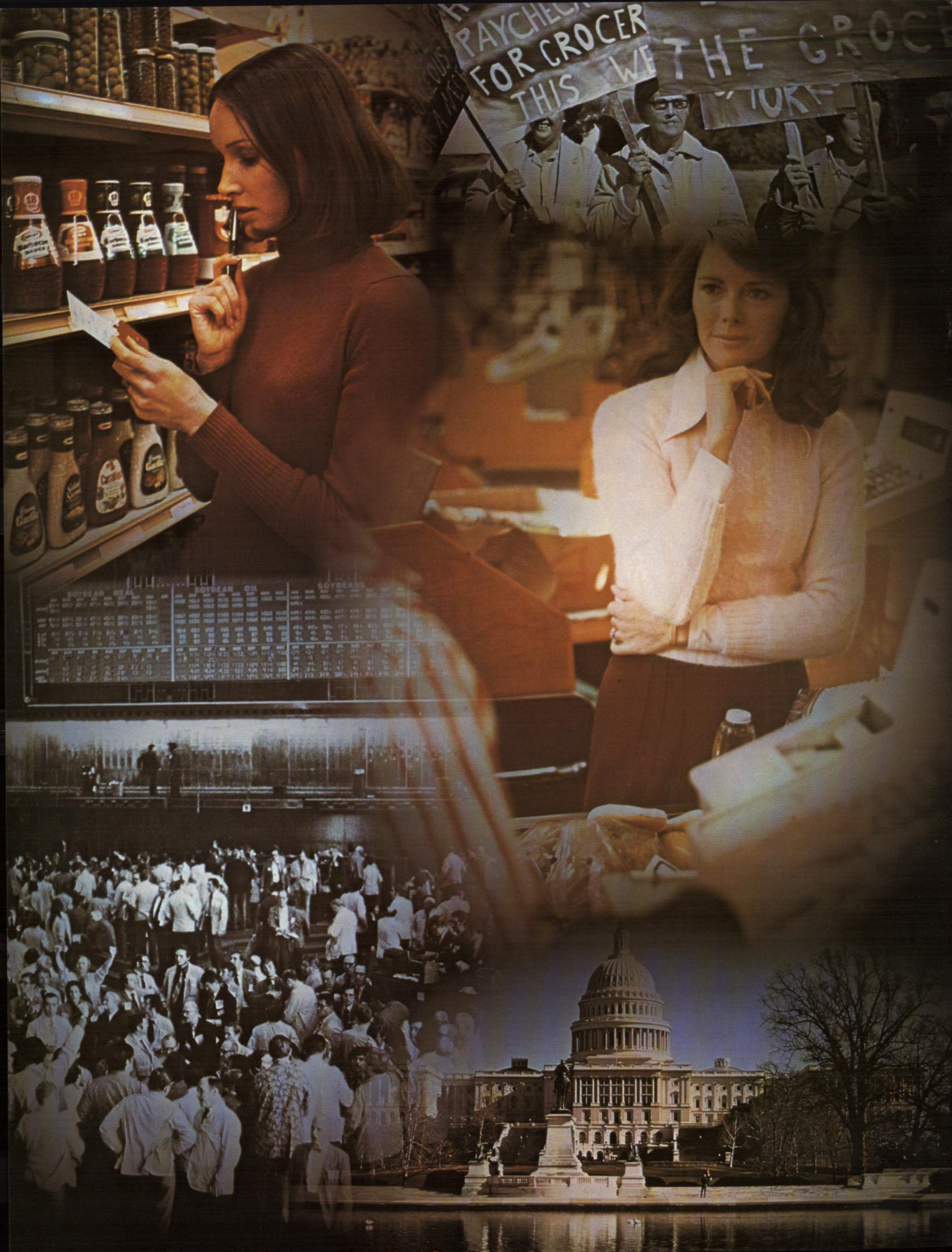
William O. Beers

William O. Beers
Chairman of the Board and
Chief Executive Officer

A.W. Woelfle

Arthur W. Woelfle
President and
Chief Operating Officer

March 8, 1974


PAYCHECK FOR GROCER THIS WE
THE GROC
SOYBEAN MEAL
SOYBEAN OIL
SOYBEANS

Focus on Issues

Controls and Shortages

The year 1973 was marked by uncertainty as the nation moved through a series of changes in complex controls of the economy. Each new phase introduced new problems for management of American business, and it was not until the fourth quarter that conditions began to stabilize.

The year began with an effort designed to relax controls in order to stimulate a return to the market/price system. However, controls on food processors were continued in effect. In June, a 60-day price freeze was announced, during which time the details of a new phase of controls were developed. During the first 30 days of that freeze, food processors were required to absorb all cost increases, including those of raw agricultural materials, and were prevented from reflecting those higher costs in their own prices. One effect was to cause a dislocation in the supplies of some basic agricultural products.

With the advent of Phase IV in September, food manufacturers were again permitted to pass-through increases in their raw material costs. Nevertheless, additional restrictions and a mandatory 30-day waiting period on price increases to recover other costs prevented a return to normal pricing.

Although consumer demand for cheese products continued to increase during 1973, domestic cheese production did not keep pace with the growing market. As a result, beginning in August and continuing through year-end, it became necessary for Kraftco to allocate many varieties of cheddar cheese products to our customers. However, greater production of domestic cheese in the closing months of the year, together with increased imports of manufactured dairy products, including dry milk powder, butter and cheddar cheese, helped to meet the strong demand.

The current shortages of energy have not materially affected Kraftco's operations. Under the present federal petroleum allocation regulations, food processing and distribution are accorded a priority status. With minor exceptions, however, the industry is not given priority status for natural gas or electricity. The potential impact of possible future energy shortages is not now determinable.

Food Costs

Over the years, a system of free competition in the marketplace can be relied upon to help stabilize consumer prices. In recent months, retail food prices have increased rapidly due to many factors. Costs of producing raw agricultural products on the farm have increased while output has declined because of feed and supply shortages, adverse weather conditions and farmers curtailing or halting their operations. Costs for food processors and retailers have also increased in many categories, including wages and benefits, taxes, interest on borrowed capital and transportation.

The American farmer, in particular, has experienced substantial cost increases. Kraftco endorses a system which provides adequate prices for raw agricultural materials at the farm level. Like any other businessman, the farmer cannot operate without a fair return on his investment and labor; and all other sectors of the food industry, in turn, depend on him. American farmers should be encouraged to participate in a general price system that permits a reasonable profit incentive.

Meanwhile, Kraftco recognizes its responsibility for plant efficiency, employee productivity and innovative product development to maintain consumer prices at competitive levels. Although food is still a relative bargain, when compared to the cost of other goods and services, higher prices are a reality of our time. Therefore, it is also our responsibility, as a major food processor, to help consumers become more knowledgeable in their food buying and eating habits.

New Products and Facilities

In 1973, Kraftco's operating divisions made significant additions to their product lines in response to consumer demand.

Major new products introduced by the Kraft Foods Division include

The year 1973 saw many uncertainties including economic controls, consumer concern, shortages and commodity price fluctuation.

Squeeze Parkay liquid margarine; *Great Beginnings* dry salad dressing mix; *Chefs Surprise,* a line of six convenient packaged dinner mixes and *Cracker Barrel* cold pack cheese food.

Sealtest Foods Division expanded its *Light n' Lively* ice milk line with the addition of new natural flavors. With imaginative new packaging, the line has been successfully test marketed and wider distribution is planned. *Breyers* All Natural ice cream was introduced to additional marketing areas.

New from Breakstone Sugar Creek Foods Division were *Stay 'n Shape* low fat cottage cheese and *Stay 'n Shape* All Natural yogurt. Both lines reflect consumer interest in high quality dairy foods with lower fat content.

The HumKo-Sheffield Chemical Products operation of the Kra-Pak Division introduced a synthetic replacement for industrial castor oil which has many properties of the natural product and is superior in some respects. It is sold for use in paint and varnish coatings, adhesives, lubricants, waxes and foams.

During 1973, the Metro Containers operation of the Kra-Pak Division began production of one type of plastic-coated glass bottle and is currently test marketing another.

Also in 1973, many new construction or expansion projects were started. Kraft Foods began work on a Swiss cheese production plant in Middlebury, Vermont and expanded facilities in Springfield, Missouri for the production of *Kraft* dinners. Metro Containers expanded its Jersey City, New Jersey operations. HumKo-Sheffield Chemical expanded production of fatty acids, amides and esters in Memphis, Tennessee and started construction in Norwich, New York of a facility to produce animal feed from whey, a by-product of cheese making. Kra-Pak's HumKo Products operation moved its non-dairy creamer plant to larger facilities at Champaign, Illinois.

Reorganization and Diversification

In April, the Corporate Development, Marketing and Research Department was established. Headed by a Senior Vice President, the new department will establish and coordinate marketing and sales policies and long-range research planning. Direction of the research laboratory and the new corporate marketing research group, both in Glenview, Illinois, are also part of the department's assignment.

Under the new alignment, the marketing and research functions are closely meshed. As marketing specialists identify consumer needs and desires that are not being filled, it becomes the laboratory researcher's task to develop products based on those needs and desires. The consumer's point of view is factored into each stage, from original concept through testing and distribution.

When plans were formulated in the early 1970's to relocate Kraftco headquarters to its present location in Glenview, Illinois, the decision was made to include at this location a new data processing center. In 1973, consolidation of eight data processing sub-centers into a unified operation at Corporate Headquarters was completed. The new center takes full advantage of the capabilities of our professional staff of systems and computer center specialists, while strengthening and standardizing our procedures for handling vital information.

Many functions are being coordinated in the new data center. One of the newest, currently being installed, is a unique on-line order entry system. The new system will ultimately provide a common data base which will be, in the near future, integrated with other systems including sales analysis, inventory ordering and control, production planning, product costing and other financial systems. When these systems are completed and installed, they will provide our customers and management with more rapid response to their needs.

In July, the chemical operations of the Kra-Pak Division were consolidated into a new organization within the division, known as HumKo-Sheffield Chemical Products. Headquartered in Memphis, Tennessee, HumKo-Sheffield Chemical produces and markets high-quality fatty acids, protein derivatives and other chemicals for use by manufacturers of cosmetics, pharmaceuticals, food, plastics, textiles, rubber, adhesives and other products.

In November, the packaging operations of the Kra-Pak Division were reorganized into two basic product groups; glass containers and flexible packaging materials. Metro Containers is responsible for the manufacture and sale of glass containers for use in the food, beverage, drug, chemical, cosmetic and other industries. Earlier in the year, the newly-acquired Universal Packaging Corporation, a manufacturer of paper containers, with plants in Arkansas, New Hampshire and North Carolina, became a part of Kra-Pak. Under the new organization, Universal is responsible for Kra-Pak's flexible packaging operations.

During the year, Sealtest Foods consolidated and closed certain unprofitable U.S. milk and ice cream plants, in continuation of a program to strengthen the profitability of Kraftco's milk and ice cream business.

Kraftco entered the non-food consumer products market in the U.S. by acquiring Aluminum Specialty Company of Manitowoc, Wisconsin on February 12, 1974. Aluminum Specialty manufactures aluminum cookware, small electric appliances, roller skates, toys and metal and plastic components of products distributed by other manufacturers.

International Operations

A notable aspect of Kraftco's success is the Company's ability to operate overseas. Our international growth has been comparatively rapid. Sales outside the United States and Canada have increased since 1968 at a compound annual rate of 18 percent, which is more than double Kraftco's worldwide figure. This growth has been achieved in ways that are welcomed by the host countries and compatible with their economic development. We use local raw materials, agricultural products, labor and management to manufacture products which meet local consumer demands.

Under construction near Namur, Belgium is a new production and distribution center to be owned and operated by our Belgian company, which will be the first Kraftco plant specifically built to serve more than one market area. Beginning in 1975, products from this facility will be distributed to those nations within the European Economic Community. Another European project now underway is an addition to the Schwabmuenchen plant of our German company for the production of cream cheese and cottage cheese.

Kraftco and Social Commitment

Since its founding in 1923, Kraftco has strived to balance its obligations to the five most important groups in the life of the Company: to our consumers and customers, by manufacturing products and packaging materials of consistently high quality at reasonable prices; to our stockholders, by maintaining the profitability and growth of their Company; to our suppliers, by offering a reliable market for their goods and services; to our employees, by providing opportunities for personal growth, job enrichment and security; and to the public, by continuing to increase our participation in the solutions of social problems.

A frequently overlooked aspect of the fifth obligation is that of letting the world know how we work to fulfill these responsibilities and the achievements that result. In today's climate, this is more important than ever, for good deeds do not always speak for themselves. Corporate silence in these matters can lead to concern by individuals and groups.

Those areas of corporate social responsibility that are particularly significant to Kraftco include environmental affairs, uses of economic resources, consumerism, equal opportunity, education and the uses of technology to further human welfare.

Environmental affairs, consumerism and technology, inherent aspects of Kraftco's success, have always been interrelated with the public interest. Kraftco and the public both require and depend upon sound ecological practices, continuing attention to consumer needs and desires and a continuing search for improved products and processes. Some of Kraftco's activities in these areas during 1973 are discussed elsewhere in this report.

As described at last year's Annual Meeting, Company resources have been directed to serve the economic needs of others. The programs include substantial involvement in minority banking, the reinsurance of a portion of employee group life coverage with a Black insurance company, new contract development with minority suppliers and the retention of a Black advertising agency. Four contracts with minority

How to Beat the New Safety Belt Systems...
Wear It!
A Drug Scene
...can be a tough act to follow. Know drugs and their effects.
They Still Don't Mix
KRAFTCO

construction firms were successfully completed. In contrast, it was a disappointment to have had to cancel, because of environmental protection regulations and current supply conditions, a major project to build a cheese drum reconditioning plant which would have been leased and operated by a Black businessman.

Kraftco contributes to a wide range of civic and educational programs, including local charities, cultural activities, urban projects and grants to colleges, universities and hospitals. A new scholarship plan for children of Kraftco employees in Canada was introduced this year. In 1973, the Company supported programs for rehabilitation and employment of veterans.

Our Affirmative Action Program continues to function as a basic responsibility of local management. To promote further progress and effective use of corporate resources, the "Plant City Program" was implemented in three cities where Kraftco has multidivision operations. The Program brings together corporate officials, local division management and community representatives for two days of discussions and forms a local task force to pursue affirmative action goals for recruitment, education and business enterprise. This Program will be expanded to other cities in 1974.

As of the first quarter of 1973, over 12 percent of Kraftco's United States employees were members of minority groups, almost double the percentage of 1965. During the same time, as a result of Kraftco's "Pipeline Program" for advancement, the growth of minority employees in jobs ranging from office and clerical through management positions has nearly tripled, going from 2.1 percent to 6.2 percent.

The advancement of women into upper-level job categories continued to grow and by early 1973 women comprised over two percent of the officials and managers, 12.4 percent of the professionals, 13.3 percent of our technical personnel and one percent of our sales force. Significant progress has been made since then, which will be reported in future communications.

In 1973, Kraftco established a corporate Department of Urban Affairs to provide increased direction and coordination of affirmative action efforts among the operating divisions.

Kraftco and the Consumer

In the final reckoning, Kraftco is accountable to millions of consumers—the customers who purchase and use our products. For generations, Kraftco products have come to be known and trusted in kitchens throughout the world. To continue justifying that confidence with food products which are safe, nutritious and convenient has been the cornerstone of Kraftco's consumer relations effort. This is a welcome responsibility.

In 1973, Kraftco began an extensive program of nutrition labeling. This labeling, required and regulated by the Food and Drug Administration, will inform consumers of the calories, protein, fat and carbohydrate content of foods they purchase in addition to listing the levels of seven essential vitamins and minerals provided by a serving of the food.

Labeling is required on any food marketed for its nutritional properties or on any food to which a nutrient has been added. In addition to foods for which labeling is mandatory, Kraftco is voluntarily putting nutrition data on some products which normally constitute a significant portion of the consumers' daily diet, particularly packaged dinners.

Although Kraftco has long had a policy of maintaining scientific data about the nutrient content of its products, the task of labeling to comply with the technicalities of the regulations is formidable and expensive. During 1974, analytical nutrition data for more than 200 products will be developed.

Nutrition and food additives have become topics of increasing public interest. Rather than preparing foods to be eaten the same day, Kraftco must process foods to meet the needs of the modern distribution system. This is one reason for the use of additives. Another is to compensate for loss of nutritional values during storage and processing.

Whenever possible, Kraftco relies on natural nutrients, those already present in raw agricultural products. However, it is interesting to note

Kraftco accepts responsibility for more than just producing high-quality products. Youth, minority groups, employee advancement and safety, recycling programs and the environment share the Company's attention and resources.

that natural nutrients, as such, are not necessarily superior to synthetics. For example, the FDA will not allow any claim that vitamins naturally present in a food product are superior to those added in processing.

In 1973, Kraftco adopted UPC (Universal Product Code) labeling. With UPC, product labels will show both a brand name and a 10-digit symbol which can be read by an electronic scanner. Kraftco believes the adoption of UPC is a sound investment for the food industry. As the required electronic equipment is installed, retailers will benefit by increased efficiency and cost savings for record-keeping and inventory control. The consumer will also save time through faster checkout service. Utilization of this system continues Kraftco's program of improvements in labeling, such as the resumption of open dating which provides more information and convenience to consumers.

While research is drawing closer to marketing as a means of satisfying consumer needs as quickly as possible, it continues to serve the Corporation's long-term interests.

Since 1941, animal feed nutritionists at Kraftco's research farm near Danville, Illinois have conducted experiments with various feeds for animals, including the use of certain manufacturing by-products as sources of nutrition.

Kraftco has continuing interest in single-cell protein. In Australia, we produce and sell large amounts of a popular spread called *Vegemite,* which is based on yeast, a single-cell material. Our activity in the United States has focused thus far on single-cell protein for animal feed uses. When the HumKo-Sheffield fermentation plant in Norwich, New York goes into operation in 1974, the Company will be producing a substantial volume of yeast material. Meantime, Kraftco scientists are working to develop protein food supplements for use in the United States.

Packaging research and improvement are major Company priorities. Our packaging must protect the quality and flavor of our products from the time they are manufactured to the moment the consumer is ready to use them. The packaging must also present an attractive appearance while providing the consumer with necessary information on the contents and use of the product. We are also concerned with the ecology of packaging. The ideal package is easily used and easily disposed of without causing an adverse effect on the environment.

Pollution control has been a corporate objective of Kraftco for many years. In the Twenties, the Company opened the first mobile trailer to monitor plant discharges. Today, wastewater treatment is receiving considerable attention from Kraftco. Our research team is continuously working with municipalities to permit biodegradable wastes from corporate plants to be treated in municipal systems.

Glass recycling has been increased by Company efforts to work with various community organizations to increase the quantity of glass returned to our recycling centers.

Consumer Information

Just as questions of controls and shortages are best resolved by a fully informed citizenry, so can information and education help preserve the consumer's freedom of choice. Kraftco's reputation for satisfaction is based, to a large extent, on the housewife's knowledge that we do not forget her.

Kraftco's service advertising, which began in the Twenties with recipes for customers of Kraft Foods, and again in the Thirties with the introduction of the Sealtest System of Laboratory Protection, is part of a continuing dialogue with the consumer. Advertising helps to sell products, which in turn helps the Company produce more efficiently. In addition, our advertising shows the housewife how to prepare interesting meals, how to improve her family's nutrition and how to shorten the time she is required to be in the kitchen.

Kraft Foods' educational program, now in its fourteenth year, carries similar information to the nation's young people. The program consists of a wide variety of material for teachers of nutrition, consumer education, home economics and related courses. A series of comprehensive teaching kits, films and educational ads in youth magazines all provide facts on food production, quality, nutrition, packaging, labeling, pricing and preparation. Through this educational activity, Kraft Foods contributes to the knowledge and training of more than half of the nation's 25 million teenagers.

Kraftco helps to meet the food and other product needs of worldwide marketplaces with operations such as our greatly expanded plant in Fallingbostel, Germany and our newest international facility under construction near Namur, Belgium.

Si vous aimez le Gouda bien tendre...
ZIZ
Les recettes "Ça, c'est fort!" à la Miracle Whip
Miracle Whip
PHILADELPHIA
KRAFT Gewürzkuchen
Miracoli
KRAFT Salsa Mil Islas
dairylea CHEESE SPREAD
VEGEMITE
Käpt'Nuss
VELVETA
Namur
Charleroi
Gembloux
Nivelles
Fleurus
Sambre
Wavre
Ottignies
Genappe
Jumet
Gosselies
Châtelineau
Tamines
Floreffe
Wépion

1973 Financial Review

Sales

Kraftco sold a record volume of products in 1973 and for the nineteenth consecutive year sales reached new highs. Total worldwide sales for the year were $3,601,535,000. This represents an increase of $404,746,000, or 12.7 percent over total sales of $3,196,789,000 in 1972. The sales increase included $54,476,000 resulting from translations of sales of Canadian and international subsidiaries at the floating rates of exchange.

It should be noted that, in 1973, the Company's accounting year included 52 weeks, as compared to 53 weeks in 1972. In 1972, the extra week resulted in sales of approximately $48,000,000.

Sales outside the United States and Canada in 1973 were $571,456,000, an increase of $110,139,000, or 23.9 percent over 1972.

Kraftco's 1973 record sales volume was achieved during a period of shortages and dislocations of raw agricultural products. The increased sales reflected a strong demand for our products, plus significantly higher selling prices, which were required in order to partially recover increased costs of raw materials and other expenses.

Manufactured dairy products accounted for 44.2 percent of total sales, and 36.3 percent resulted from sales of processed food products. These two categories increased over the year 1972 by 14.1 percent and 15.2 percent, respectively. Since 1968, sales of manufactured dairy products have increased at an annual compound growth rate of 11.5 percent, and processed foods, 9.9 percent.

Sales of fluid milk products, the third largest category, increased .6 percent over 1972 and accounted for 11.1 percent of the total. Ice cream and frozen desserts increased 7 percent, accounting for 5.2 percent of total sales. Other products, chiefly chemicals and packaging, increased 26.8 percent and contributed 3.2 percent of total sales.

Earnings

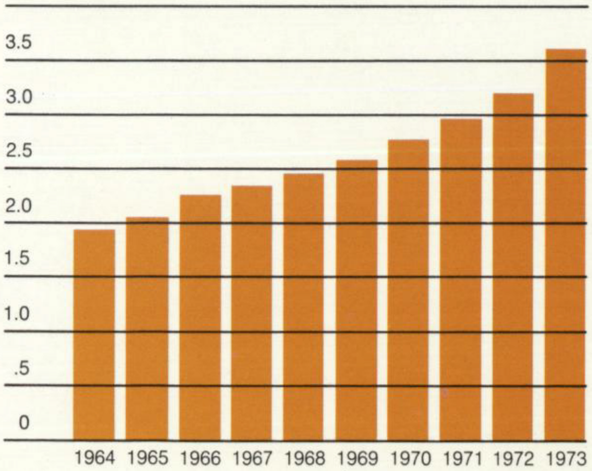
Consolidated net earnings were $103,428,000 in 1973, up $2,793,000, or 2.8 percent over 1972 earnings of $100,635,000.

For purposes of comparison, 1972 earnings and earnings per share figures are given before an extraordinary charge of $12,300,000 net of tax, or 44¢ per share, to cover the cost of closing and consolidating certain unprofitable U. S. milk and ice cream plants.

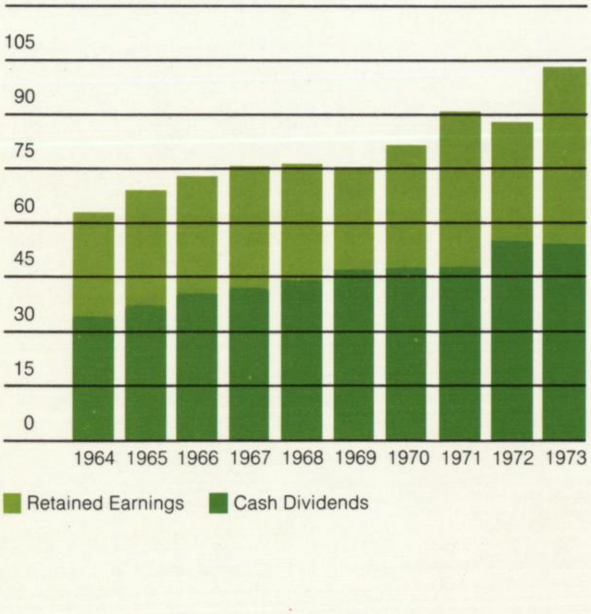
Earnings per share in 1973 were $3.70, based on 27,945,221 average number of common shares. This was an increase of 13¢ per share over the $3.57 earned in 1972 based on 28,190,243 average number of common shares.

Assuming full conversion of the Convertible Bearer Bonds issued in 1970, earnings per share in 1973 would be $3.66, compared with $3.53 in 1972.

Ten Year Sales
Billions of Dollars



Ten Year Earnings and Dividends
Millions of Dollars



Results for 1973 include $2,500,000, or approximately 9¢ per share, resulting from the United States investment tax credit, compared to $3,600,000, or approximately 13¢ per share in 1972.

Kraftco's consolidated pre-tax earnings in 1973 were $189,224,000, up .9 percent over the $187,529,000 in 1972.

Federal and foreign taxes on income for 1973 were $85,796,000, down $1,098,000, or 1.3 percent from the $86,894,000 in 1972.

Results in 1973 were strongly affected by marked differences between the first and second six-month periods. During the first half of 1973, pre-tax earnings increased 7.3 percent over 1972. Net earnings during the same period were up 7.8 percent. Despite record-breaking sales, which increased steadily through the year, profits in the second half of 1973 were depressed. During that period, profit margins were adversely influenced by the price freeze and by Phase IV regulations, which did not permit the full recovery in selling price of the increased costs of raw materials and other operating expenses. In addition, shortages of raw agricultural products, principally dairy products, restricted the Company in meeting the full needs of its customers.

As anticipated and predicted in midyear, Kraftco's after-tax profits for the third quarter were down $1,517,000, or 5.9 percent from the same period in 1972.

After the price freeze ended in September and the uncertainties of Phase IV were mostly resolved, operating results improved somewhat in the fourth quarter, allowing some recovery of profit margins. Profits for the fourth quarter increased 2.2 percent, notwithstanding the fact that it contained one week less than the fourth quarter of 1972. Still, short supplies of cheddar cheese continued to hamper profitability.

The consolidation and reorganization of fluid milk and ice cream operations in the United States continued through 1973 and has resulted in some improvement in profitability.

Increased material costs and other operating expenses adversely affected results of our Metro Containers operation. These cost increases could not be fully recovered, due to restrictions on selling prices and competitive conditions in the glass container industry. Some improvement was achieved during the fourth quarter.

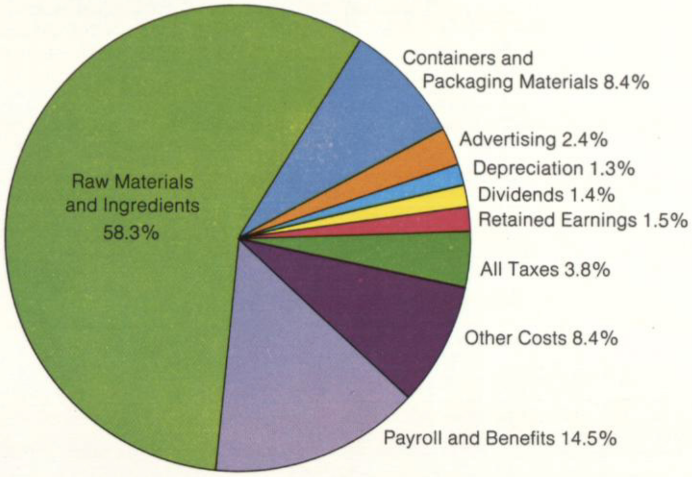
Excluding the results of foreign currency translations, 1973 earnings before tax from international operations, outside the U. S. and Canada, increased slightly over the year 1972. Although both sales volume and market expansion increased, international operating margins were lower, mainly because of the higher cost of raw materials, interest and other operating

Ten Year Sales by Class of Products

as a percent of total net sales

	Manufactured Dairy Products	Processed Food Products	Fluid Milk Products	Ice Cream & Frozen Desserts	Other Products
1973	44.2%	36.3%	11.1%	5.2%	3.2%
1972	43.7	35.4	12.4	5.5	3.0
1971	41.9	35.9	13.6	5.8	2.8
1970	40.7	35.1	15.5	6.0	2.7
1969	39.3	33.4	18.2	6.5	2.6
1968	38.1	33.2	19.4	7.1	2.2
1967	38.4	32.5	19.7	7.3	2.1
1966	38.4	32.2	19.6	7.7	2.1
1965	37.4	31.9	20.0	8.5	2.2
1964	37.1	30.8	21.1	8.9	2.1

How the Sales Dollar Was Divided



expenses, particularly in the United Kingdom and West Germany. Operations in Italy, however, improved substantially during the year.

Product and Operating Costs

The cost of our products, including raw materials, packaging and processing expenses, was 78.5 percent of sales in 1973, as compared with 76.9 percent in 1972. Delivery, sales and administrative expenses were 16.1 percent, down from 17.2 percent in 1972. Included in this amount is the cost of advertising, which was 2.4 percent of sales in 1973, compared with 2.5 percent in 1972.

Interest

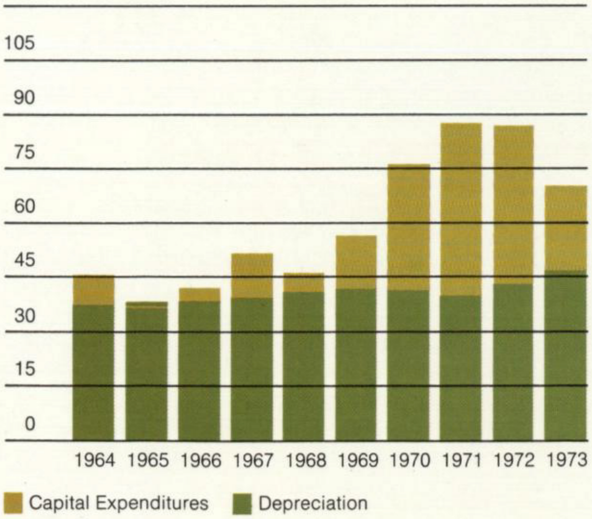
Higher interest rates in 1973, combined with the added working capital necessary to carry increased values of inventories and customer's accounts, resulted in interest charges of $16,957,000, an increase of $5,128,000 over 1972.

Translation of Foreign Currencies

During 1973, international currency exchange rates adjusted several times to reflect changes in world economic conditions. Translation, at new rates of exchange, of international subsidiaries financial statements (other than Canada) resulted in a gain of $4,667,000 which was offset by a loss on the translation of foreign currencies in the U.S. financial statements of $3,203,000 for a net gain worldwide of $1,464,000. The loss in the U.S. financial statements was related principally to the liability for the Deutsche Mark convertible bonds outstanding. Gains or (losses) from the translation of foreign currencies are shown before and after income taxes in the following table:

	Worldwide Total	U. S.	International Other Than Canada
Before Taxes:			
Translation of Income Statements	$ 3,744,000	$(84,000)	$3,828,000
Translation of Balance Sheets . . .	(3,748,000)	(6,075,000)	2,327,000
Total	$(4,000)	$(6,159,000)	$6,155,000
Taxes:			
Translation of Income Statements	$ 1,448,000	$(40,000)	$1,488,000
Translation of Balance Sheets . . .	(2,916,000)	(2,916,000)	—0—
Total	$(1,468,000)	$(2,956,000)	$1,488,000
After Taxes:			
Translation of Income Statements	$ 2,296,000	$(44,000)	$2,340,000
Translation of Balance Sheets . . .	(832,000)	(3,159,000)	2,327,000
Total	$ 1,464,000	$(3,203,000)	$4,667,000

Ten Year Capital Expenditures and Depreciation
Millions of Dollars



Dividends

A total of $49,331,000 was paid as dividends to stockholders in 1973, a decrease of $410,000 from the $49,741,000 paid in 1972. Dividends per share were $1.768 in 1973 and 1972.

Acquisitions

Kraftco acquired all the stock of Universal Packaging Corporation on April 11, 1973. Universal Packaging is now an operation of the Kra-Pak Division and manufactures flexible packaging material.

On February 12, 1974, Kraftco completed the purchase of Aluminum Specialty Company of Manitowoc, Wisconsin. Aluminum Specialty had sales in fiscal 1973 of $24,118,400.

Purchase of Treasury Stock

During 1972, Kraftco's Board of Directors established a program to purchase treasury shares for conversion of the 7½% Convertible Bearer Bonds, for stock option plans and other general corporate purposes. The authorization covers the purchase of up to one million shares. In 1973, 387,600 shares of common stock were purchased, bringing the total number of shares purchased under this program to 508,800.

Capital Expenditures

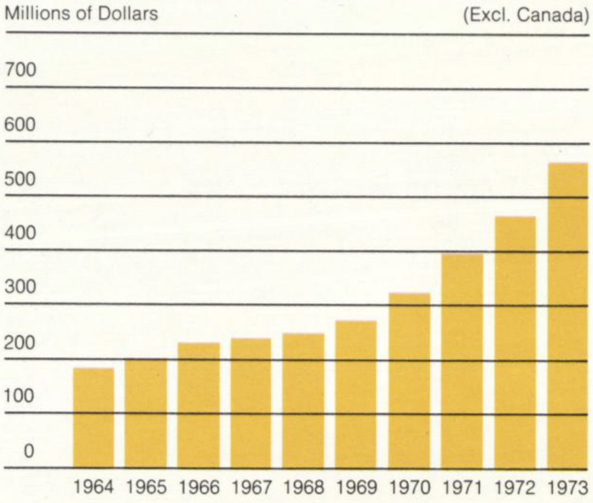
In 1973, capital expenditures were $70 million, mostly for U.S. facilities to produce processed foods, manufactured dairy products, non-food operations and for our international operations. Capital expenditures of approximately $105,000,000 are anticipated for 1974. Depreciation charges were $46,690,000 in 1973, and are estimated at $49,500,000 for 1974.

Legal Matters

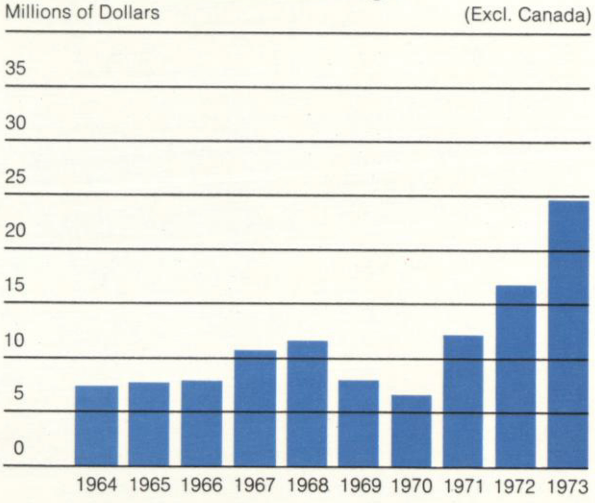
In November 1973, Kraftco entered into an agreement with Deltown Foods, Incorporated, to sell to Deltown its New York City milk business, together with related plant and equipment, for approximately $3,300,000 (net of inventory and receivables) and also licensed Deltown to use certain of the Company's trademarks in the sale of specified products in the fluid milk line. The Federal Trade Commission, in January 1974, filed a complaint challenging the transaction and seeking to require either divestiture of the assets acquired by Deltown or rescission of the transaction, and seeking to revoke the trademark license as well as to require the licensing of those same trademarks on a nonexclusive basis to other New York City dairies.

In addition, several governmental agencies have requested information from the Company in connection with investigations being conducted by them. See also the comments on Contingent Liabilities in the Notes to Consolidated Financial Statements.

Ten Year International Sales



Ten Year International Earnings



A GROWING-UP CHART
Breyers
all natural ice cream
NATURAL STRAWBERRY Ice Cream
BUTTER ALMOND Ice Cream
Light n' Lively
Ice Milk All Natural Flavor Toffee Crunch
ONE HALF GALLON
Sealtest
Light n' Lively
All Natural Flavor Pineapple
Light n' Lively
Ice Milk All Natural Flavor Lemon Chiffon
KRAFT
Italian
LOW CALORIE
Breakstone stay 'n shape 98% fat free cottage cheese
PINEAPPLE
PEACH
Light n' Lively LOWFAT COTTAGE CHEESE
LOW IN FAT...LOWER IN CALORIES
TASTY
APRICOT
VANILLA
YOGURT
KRAFT Macaroni & Cheese Dinner
KRAFT Macaroni & Cheese Dinner
APR.-1-74

Auditors' Report

To the Board of Directors and Stockholders of
Kraftco Corporation:

We have examined the consolidated balance sheets of Kraftco Corporation (a Delaware corporation) and Subsidiaries as of December 29, 1973, and December 30, 1972, and the related consolidated statements of income, retained earnings and changes in financial position for the years then ended. We also have examined the condensed statements of financial position and income of International Subsidiaries as of the above dates and periods. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Kraftco Corporation and Subsidiaries as of December 29, 1973, and December 30, 1972, and the results of their operations and changes in their financial position for the years then ended, and the accompanying condensed statements of International Subsidiaries summarize fairly the financial position and results of operations of such subsidiaries for the above dates and periods, all in conformity with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co

69 West Washington Street
Chicago, Illinois 60602
February 21, 1974.

Kraftco, through its products and labeling practices, strives to meet consumer demands including current trends toward natural foods, low fat products and more informative packaging.

Consolidated Balance Sheets

Assets

	December 29, 1973	December 30, 1972
Current Assets:		
Cash and temporary investments (See note)	**$ 33,986,615**	$ 68,011,789
Notes and accounts receivable, less allowance of $6,292,211 in 1973 and $6,347,142 in 1972 for losses	**260,977,871**	207,592,170
Inventories (See note)	**558,611,314**	464,269,087
Total current assets	**$ 853,575,800**	$ 739,873,046
Property, Plant & Equipment, at cost:		
Land	**$ 26,571,664**	$ 26,057,340
Buildings	**320,941,131**	325,744,293
Machinery and equipment	**566,494,739**	540,760,388
	$ 914,007,534	$ 892,562,021
Less—Accumulated depreciation (See note)	**434,395,285**	433,086,764
	$ 479,612,249	$ 459,475,257
Other Assets:		
Miscellaneous investments and receivables	**$ 8,987,285**	$ 7,339,825
Prepaid and deferred items	**13,177,941**	11,185,888
Intangibles (See note)	**35,544,016**	27,319,024
	$ 57,709,242	$ 45,844,737
	$1,390,897,291	$1,245,193,040

(See Notes to Consolidated Financial Statements, pages 22 and 23.)

Liabilities and Stockholders' Equity

	December 29, 1973	December 30, 1972
Current Liabilities:		
Accounts payable and accrued liabilities	**$ 274,599,526**	$ 231,401,252
Commercial paper—U.S.	**32,735,000**	—
Short-term loans of International Subsidiaries	**68,231,622**	49,443,819
Federal and foreign taxes on income (See note)	**33,398,313**	28,974,300
Current portion of long-term debt, less amounts provided for payment ($2,450,000 in 1973 and 1972)	**1,894,120**	4,154,301
Total current liabilities	**$ 410,858,581**	$ 313,973,672
Long-Term Debt (See note)	**$ 143,018,861**	$ 135,465,770
Other Liabilities:		
Deferred taxes on income (See note)	**$ 19,716,522**	$ 17,504,218
Miscellaneous reserves	**7,342,262**	7,444,683
Minority interest in subsidiary	**2,297,552**	2,060,387
	$ 29,356,336	$ 27,009,288
Contingent Liabilities (See note)		
Stockholders' Equity (See note):		
Preferred stock, $1.00 par value—authorized 10,000,000 shares; Issued—None	**$ —**	$ —
Common stock, $2.50 par value—authorized 60,000,000 shares	**73,628,220**	73,584,767
Capital surplus	**49,958,365**	49,543,434
Retained earnings (at December 29, 1973, $224,605,000 restricted as to payment of dividends under indentures)	**757,239,159**	703,142,182
	$ 880,825,744	$ 826,270,383
Less—Treasury stock, at cost	**73,162,231**	57,526,073
Stockholders' equity	**$ 807,663,513**	$ 768,744,310
	$1,390,897,291	$1,245,193,040

(See Notes to Consolidated Financial Statements, pages 22 and 23.)

Consolidated Statements of Income

Kraftco Corporation . . . and Subsidiaries

	52 Weeks Ended December 29, 1973	53 Weeks Ended December 30, 1972
Net sales	**$3,601,534,678**	$3,196,789,310
Costs and expenses:		
Cost of products	**$2,827,057,566**	$2,457,717,652
Delivery, selling and administrative expense	**578,577,926**	550,303,905
Interest expense	**16,956,891**	11,829,326
Other income and charges, net	**(10,281,380)**	(10,591,064)
Total	**$3,412,311,003**	$3,009,259,819
Income before taxes and extraordinary charge	**$ 189,223,675**	$ 187,529,491
Provision for Federal and foreign taxes on income (See note)	**85,796,000**	86,894,000
Income before extraordinary charge	**$ 103,427,675**	$ 100,635,491
Extraordinary charge—Provision for losses on plant closings, less Federal income tax benefit of $10,200,000	**—**	12,300,000
Net income	**$ 103,427,675**	$ 88,335,491
Earnings per common share:		
Per common and common equivalent share—		
Income before extraordinary charge	**$ 3.70**	$ 3.57
Extraordinary charge	**—**	.44
Net income	**$ 3.70**	$ 3.13
Per common share assuming full conversion of the 7½% Convertible Bearer Bonds due 1985—		
Income before extraordinary charge	**$ 3.66**	$ 3.53
Extraordinary charge	**—**	.43
Net income	**$ 3.66**	$ 3.10
Average number of Common and Common Equivalent Shares	**27,945,221**	28,190,243

Consolidated Statements of Retained Earnings

	52 Weeks Ended December 29, 1973	53 Weeks Ended December 30, 1972
Balance at beginning of year	**$ 703,142,182**	$ 664,548,151
Net income	**103,427,675**	88,335,491
Dividends on common stock ($1.768 per share in 1973 and 1972)	**(49,330,698)**	(49,741,460)
Balance at end of year	**$ 757,239,159**	$ 703,142,182

(See Notes to Consolidated Financial Statements, pages 22 and 23.)

Consolidated Statements of Changes in Financial Position

	52 Weeks Ended December 29, 1973	53 Weeks Ended December 30, 1972
Working Capital Provided By:		
Operations—		
Income before extraordinary charge	**$ 103,427,675**	$ 100,635,491
Non-cash charge—Depreciation	**46,689,928**	43,727,246
	$ 150,117,603	$ 144,362,737
Extraordinary charge (portion of $12,300,000 provision for losses on plant closings requiring use of working capital)	**—**	(5,904,825)
Book value of properties sold	**13,482,144**	3,563,680
Proceeds from Eurodollar bank loans	**3,817,111**	—
Sale of common stock under options	**2,312,779**	3,452,230
Other, net	**3,462,903**	6,720,345
	$ 173,192,540	$ 152,194,167
Working Capital Used For:		
Dividends paid on common stock	**$ 49,330,698**	$ 49,741,460
Property, plant and equipment additions	**70,373,816**	87,139,230
Decrease in long-term debt	**7,198,935**	5,039,301
Treasury stock acquired	**17,491,016**	5,693,545
Purchase of a business, net of working capital acquired	**11,980,230**	—
	$ 156,374,695	$ 147,613,536
Increase in Working Capital	**$ 16,817,845**	$ 4,580,631
Changes in Working Capital Represented By:		
Cash and temporary investments	**$ (34,025,174)**	$ (16,978,134)
Notes and accounts receivable, net	**53,385,701**	14,865,449
Inventories	**94,342,227**	53,396,599
Accounts payable and accrued liabilities	**(43,198,274)**	(20,307,752)
Commercial paper—U.S.	**(32,735,000)**	—
Short-term loans of International Subsidiaries	**(18,787,803)**	(23,822,002)
Federal and foreign taxes on income	**(4,424,013)**	688,272
Current portion of long-term debt	**2,260,181**	(3,261,801)
Increase in Working Capital	**$ 16,817,845**	$ 4,580,631

(See Notes to Consolidated Financial Statements, pages 22 and 23.)

Notes To Consolidated Financial Statements . . . December 29, 1973

Summary of Significant Accounting Policies

Principles of Consolidation — The consolidated financial statements include the accounts of all subsidiaries. The voting stock of all consolidated subsidiaries is wholly owned, except for a minority interest in a Canadian subsidiary. The investment in 50% owned companies is recorded on the equity method. All significant intercompany items have been eliminated.

Translation of Foreign Currencies — In the consolidated balance sheets, assets and liabilities of international subsidiaries are translated at the exchange rates prevailing on the balance sheet dates, except for fixed assets and intangibles, which are generally translated at the rates of exchange prevailing at the time such assets were acquired. Income and expense accounts are translated at the average exchange rates in effect during the years, except for depreciation, which is translated at the exchange rates which were in effect when the respective assets were acquired. Exchange adjustments originating during the years are reflected in income, and amounted to a pre-tax loss of $4,000 in 1973, and income of $772,000 in 1972. After-tax exchange adjustments in 1973 increased net income by $1,464,000, compared to an increase of $585,000 in 1972.

Inventory Valuation — Inventories are stated at the lower of average cost or market.

Depreciation — Depreciation charges are generally computed on a straight-line basis over estimated useful lives of buildings and on a composite basis over estimated group lives of machinery and equipment.

Intangibles — Intangibles represent the excess of the purchase price paid over the net book values of the tangible assets of certain businesses acquired. For businesses acquired prior to November 1, 1970, intangibles amount to $26,562,952 and are not currently being amortized. Intangibles resulting from transactions after that date ($8,981,064, net of amortization, at December 29, 1973) are being amortized over 40 years. Amortization for the year 1973 amounted to $172,176 and none for 1972.

Investment Tax Credit — Investment tax credits are taken directly into income as a reduction of the provision for Federal income taxes. Investment tax credits were $2,500,000 for 1973 and $3,600,000 for 1972.

Research and Development Costs — Research and development costs are charged to expense as incurred. These costs approximated $8,950,000 for 1973 and $8,500,000 for 1972.

Advertising — Advertising costs generally are charged to expense during the year in which they are incurred. These costs were $88,023,000 in 1973 and $79,973,000 in 1972.

Repairs and Maintenance — In general, expenditures for maintenance, repairs, renewals and betterments, which do not materially prolong the normal useful life of the asset, or are of a minor nature, are charged to expense; and expenditures for renewals and betterments of a relatively major nature that substantially prolong the normal useful life of the asset are charged to accumulated depreciation.

Undistributed Earnings of International Subsidiaries — Federal income taxes are provided on the portion of each international subsidiary's earnings which is not deemed to be permanently invested in the subsidiary. At December 29, 1973, approximately $92,115,000 of such undistributed earnings were considered to be permanently invested. In the event such earnings were distributed, the Company would have available tax credits which would substantially offset any Federal income taxes due.

Taxes — Tax expense is made up of the following components:

	1973	1972
Income Taxes:		
Current—		
Federal	**$ 62,222,000**	$ 62,039,000*
Foreign	**21,509,000**	22,412,000
Deferred	**2,065,000**	2,443,000
	$ 85,796,000	$ 86,894,000
State and Local Taxes (U.S.)	**20,015,000**	19,873,000
Payroll Taxes	**20,333,000**	16,761,000
Other Taxes	**12,347,000**	9,497,000
	$138,491,000	$133,025,000*

**Before tax benefit on extraordinary charge.*

Deferred tax expense results from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The source of these differences and the tax effect was as follows:

	1973	1972
Excess of tax over book depreciation	**$ 4,849,000**	$ 2,766,000
Exchange adjustment related to Convertible Bearer Bonds	**(2,784,000)**	—
Amortization of prior years deferred investment credit	**—**	(323,000)
	$ 2,065,000	$ 2,443,000

There are no significant items either individually or in the aggregate accounting for the difference between the basic U. S. Federal income tax rate of 48% and the effective rate for each period after including the effect of state and local taxes on income.

It is not expected that there will be substantial cash outlays for tax payments in excess of tax expense for the next three years.

Employees' Stock Options

Under the Employees' Stock Option Plans 199,770 and 189,160 shares of the Company's common stock at December 29, 1973 and December 30, 1972, respectively, were available for future grants to officers and other key employees. During 1973, options were granted to purchase 2,500 shares at $46.15 per share. Options to purchase 61,536 shares were exercised at prices ranging from $30.25 to $43.25 per share. At December 29, 1973, 1,429 employees (including officers) held options to purchase 348,004 shares at prices ranging from $33.50 to $46.15 per share. At that date, options for 182,394 shares were exercisable.

Cash

At December 29, 1973, $23,689,000 was held in short-term bank deposits as pledges for bank loans of international subsidiaries, and $1,866,000 was deposited with a German bank to comply with German Government regulations relating to borrowings of the German subsidiary. The Company had unused lines of credit amounting to $133,000,000 at December 29, 1973. Bank balances of approximately $5,800,000 were maintained at banks to offset routine banking service charges and to support lines of credit.

Contingent Liabilities

There are no pending legal proceedings against the Company other than ordinary routine litigation (including several treble damage suits based on alleged violations of the antitrust laws) which is incidental to the Company's business and, based on the opinion of the Company's General Counsel, it is believed that the outcome of such litigation will not materially affect the Company's consolidated financial position or operations.

Profit Incentive Plans

Under year-to-year profit incentive compensation plans of the Company and certain of its divisions, key employees including officers of the Company, earned approximately $8,158,000 for 1973 and $8,011,000 for 1972. These plans, covering 2,821 and 2,667 employees for 1973 and 1972, respectively, did not include any Director of the Company who was not an officer.

Long-Term Debt

All of the issues of debentures and debenture stock, other than the 7½% Convertible Bearer Bonds, have sinking fund or prepayment requirements. The amounts shown below as outstanding at December 29, 1973, exclude maturities and sinking fund requirements included in current liabilities, and $3,975,000 of debentures held in treasury in excess of current sinking fund requirements.

Kraftco Corporation	**December 29, 1973**	December 30, 1972
3⅛% Debentures due 1976	**$ 13,506,000**	$ 14,393,000
4⅜% Debentures due 1992	**25,719,000**	30,105,000
6⅞% Debentures due 1996	**50,000,000**	50,000,000
7½% Convertible Bearer Bonds due 1985 (Deutsche Marks) (Convertible into 649,350 shares of common stock of Kraftco Corporation)	**37,000,000**	31,200,000
2% Mortgage—Pennsylvania Industrial Development Authority due 1973/93	**4,690,341**	4,897,810
Mortgages payable of a subsidiary ..	**3,878,409**	—
Bank Loans due 1978 (Eurodollars)	**3,817,111**	169,960
English Subsidiary		
Debenture Stock due 1975	**4,408,000**	4,700,000
	$143,018,861	$135,465,770

Company Pension Plans

The Company and its subsidiaries have several pension plans. It is the Company's general policy to provide and fund current service costs and interest on unfunded past service costs annually and to amortize past service costs over 40 years. At January 1, 1973, employees' vested benefits under these plans were fully funded. The Company also contributes to joint industry and union plans. Substantially all employees are covered under one or more of the above plans. Total pension costs approximated $19,650,000 in 1973 and $19,525,000 in 1972.

Capital Transactions

	Number of Shares		Amount		
	Common Stock	Treasury Stock	Common Stock	Treasury Stock	Capital Surplus
December 25, 1971	29,413,832	1,349,986	$73,534,580	$55,227,962	$49,536,375
Treasury stock acquired	—	121,200	—	5,693,545	—
Used for—					
Management Incentive Compensation Plan	—	11	—	450	—
Stock Options exercised	20,075	82,964	50,187	3,394,984	7,059
December 30, 1972	29,433,907	1,388,211	$73,584,767	$57,526,073	$49,543,434
Treasury stock acquired	—	387,600	—	17,491,016	—
Used for—					
Management Incentive Compensation Plan	—	11	—	463	—
Stock Options exercised	17,381	44,155	43,453	1,854,395	414,931
December 29, 1973	29,451,288	1,731,645	$73,628,220	$73,162,231	$49,958,365

International Subsidiaries (other than Canadian)

Condensed Statements of Income

	52 Weeks Ended December 29, 1973	53 Weeks Ended December 30, 1972
Net sales	**$ 571,455,829**	$ 461,316,553
Costs and expenses:		
Cost of products	**$ 442,338,404**	$ 356,141,844
Delivery, selling and administrative expense	**91,453,690**	73,605,618
Interest expense	**8,039,446**	3,959,462
Gain on translation of currencies (balance sheet items) (Note A)	**(2,327,045)**	(1,189,661)
Other income and charges, net	**(4,975,204)**	(1,529,843)
Total	**$ 534,529,291**	$ 430,987,420
Income before taxes (Note A)	**$ 36,926,538**	$ 30,329,133
Provision for taxes on income (Note B)	**11,986,137**	13,378,638
Net income (Note A)	**$ 24,940,401**	$ 16,950,495

Condensed Statements of Financial Position

	December 29, 1973	December 30, 1972
Cash and temporary investments	**$ 4,096,423**	$ 10,032,743
Notes and accounts receivable	**52,066,545**	39,694,079
Inventories	**112,700,860**	96,828,965
Total current assets	**$ 168,863,828**	$ 146,555,787
Current liabilities	**144,969,391**	114,376,509
Working capital	**$ 23,894,437**	$ 32,179,278
Property, plant and equipment, less accumulated depreciation	**77,506,700**	64,044,822
Other assets	**3,365,762**	2,694,558
	$ 104,766,899	$ 98,918,658
Less—Long-term debt and reserves	**10,159,354**	11,092,929
Net tangible assets	**$ 94,607,545**	$ 87,825,729

Notes:

A. For additional details on translation of currencies see pages 14 and 22.

B. The provision for income taxes included in the Condensed Statements of Income for International Subsidiaries (other than Canadian) is based upon foreign income tax rates applicable to such income. Any additional taxes expected to be payable in the United States on foreign income are included in the consolidated provision for income taxes.

The above accounts are included in the Consolidated Financial Statements.

Principal Divisions and Operations

United States Operations

Kraftco conducts its business in the United States through four operating divisions.

Kraft Foods Division originated in 1903 in Chicago and became part of Kraftco in 1930. The Division makes and markets hundreds of food products throughout the United States. Kraft's history is marked by the innovation of important advances with processed, packaged foods, particularly processed cheese and salad dressings. Among these were *Velveeta,* the first successfully processed packaged cheese spread with good keeping quality and uniformity of flavor and texture, and *Miracle Whip* Salad Dressing. In addition to its line of fine natural cheeses, Kraft Foods has steadily diversified its product lines over the years to include a wide range of foods such as jellies and preserves, barbecue sauces, margarine, confections, dry dinner mixes, cooking oil and shortening, citrus juices and fruit salads. In addition to products sold in retail outlets, Kraft does an extensive business with members of the food service industry, such as restaurants, hospitals and the military. Kraft also provides many industrial food products used by other food manufacturers. Animal feed products are also marketed by Kraft.

Sealtest Foods Division, headquartered in Philadelphia, resulted from a 1958 consolidation of the Company's many milk and ice cream operations, several dating back to the 1800's. Over the years, Sealtest has developed steadily into a major processor of dairy foods, distributing an extensive product line including ice cream, fluid milk, cream, cottage cheese, yogurt and milk by-products, butter and fruit juices. Sealtest's distribution area extends chiefly from the Atlantic Coast through the Midwest. The Division markets most of its products under the widely advertised *Sealtest* brand. In addition, ice cream is also sold under the long-established *Breyers* trademark. A line of low fat milk, ice milk and dairy specialty products also is marketed under the *Light n' Lively* trademark.

Breakstone Sugar Creek Foods Division, with headquarters in New York City, was created in 1968, through the consolidation of the operations of the former Breakstone Foods and Sugar Creek Foods Divisions. This was done to strengthen marketing effectiveness of both Divisions and broaden the geographical area of distribution. Breakstone joined Kraftco Corporation in 1928. Beginning in 1882 with sales of its dairy products in New York City, Breakstone now distributes throughout the eastern seaboard of the United States, including Puerto Rico, and in the Fort Worth, Dallas, Houston and Indianapolis market areas. Cottage cheese, sour cream, cream cheese, yogurt and other cultured milk products are marketed under the *Breakstone, Temp-Tee, Swiss Parfait* and *Stay 'n Shape* brands. Sugar Creek operations, which began in 1910 in Watseka, Ill., became part of Kraftco in 1929. Its products include quality butter, powdered milk and ice cream mixes and flavor bases for soft drinks and syrups. Market areas are principally in the Midwest and Southwest.

Kra-Pak Division was formed in 1970 as Kraftco's industrial, packaging materials and edible oil products Division. Kra-Pak's business and marketing structure is comprised of four principal operations; HumKo Products, HumKo-Sheffield Chemical Products, Metro Containers and Universal Packaging. HumKo Products refines and manufactures a variety of edible oils, shortenings and coffee whiteners for consumers and food processors and has large modern processing facilities in Memphis, Tenn., Champaign, Ill. and Buena Park, Calif. HumKo-Sheffield Chemical Products produces and sells a line of high-quality fatty acids and chemicals used by leading industries. The Operation's major United States manufacturing facilities are located in Memphis, Tenn., Norwich and Oneonta, N.Y. Metro Containers, headquartered in Lyndhurst, N.J., manufactures glass containers for use in the food, beverage, drug, chemical, cosmetic and other industries. Plants are located in Jersey City and Carteret, N. J., Dolton, Ill. and Washington, Pa. Universal Packaging, acquired by Kraftco in 1973, manufactures paper containers principally for the food industry and has plants at Bow, N. H., Ft. Smith, Ark. and Lumberton, N. C. In addition, Universal Packaging has responsibility for the Company's flexible packaging materials and printing operations. Universal Packaging headquarters are in Lyndhurst, N. J.

Canadian Operations

Two Canadian subsidiaries report to the Kraft Foods Division: Kraft Foods Limited, which manufactures and distributes processed food products and manufactured dairy products under substantially the same trademarks used in the United States, and Vancouver Fancy Sausage Co. Ltd., which manufactures and distributes specialty meat products. Another Canadian subsidiary, Dominion Dairies Limited, reports to Sealtest Foods Division. Dominion produces and distributes fluid milk products, various manufactured dairy products and ice cream and frozen desserts in the provinces of Ontario and Quebec, principally under the trademark *Sealtest.*

International Operations

Operations in Australia, Belgium, Britain, Denmark, Germany, Ireland, Italy, Mexico, New Zealand, Panama, Philippines, Spain, Sweden and Venezuela produce and distribute processed food products, manufactured dairy products and non-food items under the *Kraft* trademark. The MK Cheese Co., Ltd., jointly owned by Kraftco and Morinaga Milk Industry Co., Ltd., produces cheese products in Japan. These subsidiaries, which operate under local management, report to the Kraft Foods Division. Operations in Manchester, England and Baudour, Belgium report to the Kra-Pak Division.

Research and Development

R&D supports Kraftco's divisions by performing applied and fundamental research. Located in Glenview, Illinois, the research center, which is one of the largest and best equipped facilities in the food industry, is staffed by 350 people, including skilled scientists, chemists, nutritionists, engineers and technical aides. R&D also operates the Company's research farm in Danville, Illinois, which conducts feeding experiments with livestock. Kraftco's research and development effort began in 1928, and today works with the Company's operating divisions to develop new products and packaging, to improve established products and the economics of production and to find uses for by-products. R&D also provides guidance and assistance in environmental protection and maintains a close liaison with government and university laboratories.

Ten Year Summary

(Dollar amounts in thousands, except per share figures)

	1973	1972	1971
Income and Dividends:			
Net sales	**$3,601,535**	$3,196,789	$2,959,636
Income before Federal and foreign taxes on income	**189,224**	187,529*	178,512
Net income	**103,428**	88,335**	91,347
Dividends	**49,331**	49,741	47,462
Per share of common stock:			
Net income	**$3.70**	$3.13**	$3.25
Net income—fully diluted	**$3.66**	$3.10	$3.21
Dividends	**$1.768**	$1.768	$1.70
Financial Position:			
Cash and temporary investments	**$ 33,987**	$ 68,012	$ 84,990
Notes and accounts receivable (net)	**260,978**	207,592	192,727
Inventories	**558,611**	464,269	410,872
Total current assets	**853,576**	739,873	688,589
Total current liabilities	**410,859**	313,974	267,270
Working capital	**442,717**	425,899	421,319
Property, plant and equipment (net)	**479,612**	459,475	430,326
Total assets	**1,390,897**	1,245,193	1,163,791
Long-term debt	**143,019**	135,466	140,325
Stockholders' equity	**807,664**	768,744	732,391
Per share of common stock	**$28.90**	$27.41	$26.10
Statistical Information:			
Capital expenditures	**$ 70,374**	$ 87,139	$ 87,356
Depreciation charged during the year	**46,690**	43,727	40,733
Total taxes—income, property and other	**138,491**	133,025***	129,009
Per share of common stock	**$4.96**	$4.72***	$4.59
Interest expense	**16,957**	11,829	9,777
Payroll	**452,643**	431,349	392,997
Average number of employees	**48,909**	48,948	48,091
Number of stockholders at year end	**67,556**	69,999	71,461
Number of shares of common stock outstanding at year end (in thousands)	**27,720**	28,046	28,064

*Income before extraordinary charge of $22,500,000.
**Income before extraordinary charge was $100,635,000 (per share $3.57) for 1972.
***Before tax benefit on extraordinary charge.

Per share figures for all years prior to 1966 have been adjusted for the two-for-one stock split in 1966.

1970	1969	1968	1967	1966	1965	1964
$2,751,129	$2,580,905	$2,428,106	$2,318,587	$2,251,725	$2,017,280	$1,919,945
163,337	156,346	151,576	140,950	135,476	129,057	123,951
82,006	75,625	76,162	76,120	73,461	69,902	63,784
47,507	47,077	44,886	41,641	40,413	37,664	34,729
$2.93	$2.69	$2.67	$2.65	$2.55	$2.41	$2.20
$2.92	$2.69	$2.67	$2.65	$2.55	$2.41	$2.20
$1.70	$1.675	$1.575	$1.45	$1.40	$1.30	$1.20
$ 51,653	$ 55,511	$ 92,913	$ 84,701	$ 69,466	$ 117,082	$ 113,846
184,773	178,573	159,044	140,469	134,830	121,815	112,070
363,030	341,083	310,453	310,831	310,832	250,928	241,754
599,456	575,167	562,410	536,001	515,128	489,825	467,670
241,027	249,308	202,750	190,449	189,524	180,824	171,055
358,429	325,859	359,660	345,552	325,604	309,001	296,615
389,037	359,899	346,691	343,650	334,347	330,866	332,136
1,031,365	977,684	948,145	915,344	884,518	852,652	824,629
82,875	57,377	87,728	85,145	87,732	89,322	95,638
685,055	649,119	638,697	622,280	592,680	566,239	538,638
$24.50	$23.25	$22.41	$21.66	$20.58	$19.56	$18.58
$ 75,526	$ 56,511	$ 45,799	$ 51,600	$ 42,481	$ 37,767	$ 45,450
42,029	42,305	41,206	39,980	38,481	38,222	37,897
118,438	114,096	105,876	92,425	89,072	82,636	83,299
$4.23	$4.06	$3.71	$3.21	$3.09	$2.85	$2.87
7,589	5,436	4,865	4,397	4,471	4,157	4,258
368,038	346,973	323,257	309,905	301,407	280,983	274,546
48,179	48,160	47,007	47,060	46,525	45,157	45,172
71,538	71,584	71,702	72,352	71,240	68,762	69,073
27,965	27,921	28,339	28,672	28,801	28,936	28,988

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Akron

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New York

Arthur W. Woelfle
President and Chief Operating Officer

Note: In this report the use of italics indicates some of the many trademarks of Kraftco Corporation. The word Kraftco and the symbol Ⓚ are also trademarks of Kraftco Corporation.

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Marketing and Research

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Assistant Vice President and
Assistant General Counsel

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Roger H. Willis
Assistant Comptroller

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Gordon Edwards
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Arthur W. Woelfle

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Catherine B. Cleary
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O. P. Thomas
John L. Weinberg
Arthur W. Woelfle

Counsel

Sullivan & Cromwell

Transfer Agents

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National Boulevard Bank of Chicago
400 North Michigan Avenue, Chicago, Illinois 60611

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55 Hawthorne Street, San Francisco, California 94120

The Royal Trust Company
630 Dorchester Boulevard West, Montreal 110, P.Q., Canada
Royal Trust Tower, Toronto-Dominion Centre,
Toronto 116, Ont., Canada

*Commonwealth Trading Bank of Australia
233 Collins Street, Melbourne, Victoria, Australia

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Continental Illinois National Bank and
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Wells Fargo Bank, N.A., San Francisco
Montreal Trust Company, Montreal and Toronto
*The Wales Nominees (Vic.) Pty. Limited, Melbourne

Stock Exchanges

New York, Chicago, San Francisco, Montreal, Toronto, *Adelaide, *Brisbane, *Hobart, *Melbourne, *Perth, *Sydney, London, Brussels, Antwerp, Frankfurt/Main, Basel, Bern, Geneva, Lausanne, Zurich. U.S. Trading Symbol: KRA.

**For shares represented by Australian certificates only.*

Auditors

Arthur Andersen & Co.

Corporate Headquarters

Kraftco Corporation
Kraftco Court
Glenview, Illinois 60025
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Printed in U.S.A.

FRUIT SHERBET DRESSING
½ cup Kraft Mayonnaise
½ cup Breakstone Sour Cream
½ cup Sealtest Orange, Raspberry
or Lime Sherbet
Mayonnaise & sour cream.
Sherbet, mixing until
fruit
SALADS
KRAFT
REAL
Mayonnaise
32 FL.OZS.(1QT.)
Breakstone
PASTEURIZED
SOUR
CREAM
Sealtest
LIME
SHERBET
ARTIFICIAL COLOR ADDED
32 FL.OZ.(1QT.)
Breakstone
SOUR CREAM

Fruit Sherbet Dressing

½ cup *Kraft* Mayonnaise
½ cup *Breakstone* Sour Cream
1 cup *Sealtest* Orange, Raspberry or Lime Sherbet

Combine Mayonnaise and Sour Cream. Add softened Sherbet, mixing until blended. Chill. Serve with fruit and *Sealtest* Cottage Cheese.

2 cups.

Sealtest
GRADE A
PASTEURIZED
HOMOGENIZED
VITAMIN D
MILK
GALLON
41 086